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CITY OF EAST TAWAS
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED SEPTEMBER 30, 2008

AUDITORS' REPORT

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January 22, 2009

Independent Auditors' Report

Members of the City Council
City of East Tawas
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City of East Tawas, Iosco County, Michigan, as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements, as listed in the index. These financial statements are the responsibility of the City of East Tawas' management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the East Tawas Housing Commission, a component unit. The financial statements, reported discretely, reflect total assets of \$1,686,077 as of December 31, 2007, and total revenues of \$546,260 for the year then ended. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the East Tawas Housing Commission, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City of East Tawas, Iosco County, Michigan, as of September 30, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of East Tawas' basic financial statements. The combining nonmajor and East Tawas TIFA - component unit fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor and East Tawas TIFA - component unit fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stephenson, Gracik & Co., P.C.

City of East Tawas

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the City of East Tawas' (the City) financial performance provides an overview of the City's financial activities for the year ended September 30, 2008. The intent of this discussion and analysis is to look at the City's financial performance as a whole. The discussion focuses on the City's primary government and, unless otherwise noted, does not include the component units reported separately from the primary government.

Financial Highlights

Financial Highlights

The City's assets exceeded its liabilities by \$16,268,568. Business-type activities (Enterprise Funds) account for \$9,541,066 of this total.

The City's total net assets increased by \$635,606. This is a 4.1% increase.

The City's governmental funds reported a combined ending fund balance of \$2,702,847 this year, an increase of \$297,421. Of this amount, \$1,871,603 is available for spending (*unreserved/undesignated fund balance*) on behalf of its citizens. The General Fund 2007/2008 fiscal year end fund balance is \$1,485,771. This reflects an increase of \$153,237 over fiscal year 2006/2007.

The City's total bonded and contract indebtedness was reduced by \$453,658.

Overview of the Financial Statements

The financial statements are organized so the reader can understand the City as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The City's basic financial statements are comprised of three components: The government-wide financial statements, fund financial statements and notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *statement of net assets* and the *statement of activities* display information about the City as a whole. These statements include the financial activities of the primary government and its component units except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for services.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function.

Program revenues include charges paid by the recipient for the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City with certain limited exceptions. The comparisons of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

With this report, capital assets are listed for the City of East Tawas. These assets are comprised of buildings and improvements, land improvements, machinery and equipment, vehicles, infrastructure, and land owned by the City. These assets total \$13,722,238 net of accumulated depreciation.

Fund Financial Statements

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: *Governmental, Proprietary and Fiduciary*.

Governmental Funds:

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

- General Fund – This fund accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue.
- Federal Project Fund – This fund accounts for the collection of note receivable activity as a result of loans to downtown businesses from previous UDAG monies.

Proprietary Funds:

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The City's enterprise funds may be used to account for any activity for which a fee is charged to external users (citizens) for goods and services. The following are the City's major enterprise funds:

- Sewer Fund – This fund accounts for fees collected for sewer services provided by the City and a city-wide property tax levy.
- Water Fund – This fund accounts for fees collected for water services provided by the City and a city-wide property tax levy.
- City Park Fund – This fund accounts for funds received for constructing, operating and maintaining the City's park facilities.

Fiduciary Funds: Fiduciary fund reporting focuses on net assets and changes in net assets. The City's agency funds account for assets held by the City for political subdivisions in which the City acts as the fiscal agent.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided on the City *government-wide* and *fund* financial statements. The notes to financial statements are presented following the Basic Financial Statements, and provide an expansive and thorough view of various aspects of the audited financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents combining nonmajor fund statements.

Government-Wide Financial Analysis

Summary of Net Assets:

The following summarizes the net assets of the City of East Tawas at September 30, 2008:

Net Assets Summary

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>September 30, 2008</u>	<u>September 30, 2007</u>
Current Assets	\$ 3,883,253	\$ 1,446,893	\$ 5,330,146	\$ 5,068,161
Restricted Assets	0	947,919	947,919	890,543
Noncurrent Assets	<u>6,202,738</u>	<u>9,404,879</u>	<u>15,607,617</u>	<u>15,779,280</u>
Total Assets	<u>10,085,991</u>	<u>11,799,691</u>	<u>21,885,682</u>	<u>21,737,984</u>
Current Liabilities	1,212,499	302,027	1,514,526	1,530,449
Long-Term Liabilities	<u>2,145,990</u>	<u>1,956,598</u>	<u>4,102,588</u>	<u>4,574,573</u>
Total Liabilities	<u>3,358,489</u>	<u>2,258,625</u>	<u>5,617,114</u>	<u>6,105,022</u>
Net Assets				
Invested in Capital Assets,				
Net of Related Debt	3,577,245	6,708,609	10,285,854	10,073,973
Restricted	81,244	947,919	1,029,163	969,718
Unrestricted	<u>3,069,013</u>	<u>1,884,538</u>	<u>4,953,551</u>	<u>4,589,271</u>
Total Net Assets	<u>\$ 6,727,502</u>	<u>\$ 9,541,066</u>	<u>\$ 16,268,568</u>	<u>\$ 15,632,962</u>

Summary of Changes in Net Assets:

Following is an analysis of the changes in net assets for fiscal year 2008 with comparative totals for 2007.

Generally speaking, the City's net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. The City of East Tawas, through its governing body, i.e., City Council, has taken a sensible approach vis-à-vis capital asset acquisition and amortization of the incurred debt. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws/regulations of other governments.

Summary of Changes in Net Assets (Continued):

The City Council has prudently set aside funds to offset potential personnel and/or administrative liabilities. It is the City's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>September 30, 2008</u>	<u>September 30, 2007</u>
Revenues:				
Program Revenues:				
Charges for Services	\$ 197,500	\$ 1,411,563	\$ 1,609,063	\$ 1,558,714
Operating Grants and Contributions	555,714	61,158	616,872	506,022
Capital Grants and Contributions	35,261	0	35,261	6,480
Total Program Revenues	<u>788,475</u>	<u>1,472,721</u>	<u>2,261,196</u>	<u>2,071,216</u>
General Revenues:				
Property Taxes	1,109,938	243,429	1,353,367	1,286,501
State Revenue Sharing	292,356	0	292,356	350,672
Interest and Investment Earnings	164,957	81,860	246,817	312,567
Rent Income	298,509	31,416	329,925	323,172
Sale of Capital Assets	74,000	0	74,000	0
Other	593	4,309	4,902	2,342
Transfers – Internal Activity	165,024	(165,024)	0	0
Total General Revenues and Transfers	<u>2,105,377</u>	<u>195,990</u>	<u>2,301,367</u>	<u>2,275,254</u>
Total Revenues	<u>2,893,852</u>	<u>1,668,711</u>	<u>4,562,563</u>	<u>4,346,470</u>
Program Expenses:				
General Government	620,391	0	620,391	596,948
Public Safety	525,928	0	525,928	434,776
Public Works	894,462	0	894,462	880,394
Community and Economic Development	75,929	0	75,929	66,558
Recreation and Cultural	163,214	0	163,214	155,826
Interest and Fiscal Charges	89,763	0	89,763	111,385
Amortization of Deferred Bond Costs and Bond Discounts (Net)	5,596	0	5,596	2,798
Sewer Services	0	468,913	468,913	414,209
Water Services	0	453,745	453,745	408,946
City Park	0	629,016	629,016	592,817
Total Program Expenses	<u>2,375,283</u>	<u>1,551,674</u>	<u>3,926,957</u>	<u>3,664,657</u>
Change in Net Assets	518,569	117,037	635,606	681,813
Beginning Net Assets, as Restated	<u>6,208,933</u>	<u>9,424,029</u>	<u>15,632,962</u>	<u>14,951,149</u>
Ending Net Assets	<u>\$ 6,727,502</u>	<u>\$ 9,541,066</u>	<u>\$ 16,268,568</u>	<u>\$ 15,632,962</u>

Governmental Activities

The *Statement of Activities* illustrates, by department, the expense incurred and revenue received.

Total governmental activities reveal revenues of \$788,475 from *Charges for Services, Operating Grants and Contributions and Capital Grants and Contributions*. The *Charges for Services* are fees for refuse collection, franchises, fire contracts, cemetery sales and openings and penalties. While revenue collected is substantial, operating expenses totaled \$2,375,283 for these same activities. The largest expenses were incurred by General Government offices (\$620,391), Public Safety (\$525,928) and Public Works (\$894,462).

Business-Type Activities

The City of East Tawas's *Business-Type activities* are limited to the Sewer, Water and City Park Funds.

Financial Analysis of City Funds

As noted earlier in this report, the City uses fund accounting to ensure and demonstrate compliance with finance-related statutory and legal requirements. A thorough review and examination of fund types will reveal the strengths and weaknesses of its daily operations.

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds: 1) General fund – accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue; and 2) Federal Project Fund – accounts for the collection of note receivable activity as a result of loans to downtown businesses from prior UDAG monies.

This year's City audit, following GASB 34 format, shows 12 governmental funds. These funds are maintained by the City as separate units in the General Ledger.

Enterprise Funds

The City's enterprise funds provide the same type of information found in the government-wide financial statements. Commonly, the sewer and water departments and the City Park comprise these funds. GASB 34 places such funds under the caption of *Propriety Funds* under the appropriate statements, i.e., *Statement of Net Assets*, *Statement of Cash Flows*, etc.

Budgetary Highlights

The City's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund.

During the fiscal year ended September 30, 2008 the City Council amended the budget to take into account events occurring during the year. These budget amendments fall into two categories:

- Changes made to reflect increases or decreases in anticipated expenditures
- Changes made to reflect increases or decreases in anticipated revenues

General Fund

The General Fund actual revenue was \$1,910,703. That amount is above both the original budget estimate of \$1,757,142 and the final amended budget estimate of \$1,903,556. The variance between the original budget and the amended budget was mainly the result of increased federal grants, interest earnings and equipment rental. The variance between the actual revenue and the final budget was due to increased interest earnings and equipment rental.

The actual expenditures of the General Fund were \$1,557,059, which is below both the original budget estimates of \$1,673,248 and the final amended budget estimates of \$1,703,148. The variance between the actual expenditures and the final amended budget was due to projects that were expected to be completed during the 2007-2008 fiscal year and decreased spending in various other areas.

The General Fund had total revenues of \$1,910,703 and total expenditures of \$1,557,059 with an ending fund balance of \$1,485,771.

Operating transfers in of \$135,024 include revenues from the City Park which was then paid to the Building Authority as rent for the City Hall and Community Center. The Building Authority then used that money as payment of principal and interest for the bond issue for construction of the City Hall and Community Center.

Operating transfers out of \$335,431 include \$132,000 to the Intragovernmental Service Fund for equipment replacement; \$40,000 to the Community Center Fund for City Hall operations paid through the Community Center budget; \$82,431 to the Major Streets Fund which represents one mill of taxes earmarked by the City Council for road improvements; and \$81,000 to the Local Streets Fund to cover road maintenance.

Capital Asset and Debt Administration

Capital Assets

Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at *historical cost* or *estimated historical cost* if purchased or constructed. Donated capital assets are recorded at estimated FMV (fair market value) at the date of donation.

The City's infrastructure consists of roads and water/sewer lines. Improvements are capitalized, i.e., depreciated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Capital Assets – Governmental Activities beginning balance was \$7,521,580 with an ending balance of \$7,877,576. Governmental Activities Total Capital Assets – Net of Depreciation was \$5,688,165.

Capital Assets - Business Type Activities beginning balance was \$16,050,134 with an ending balance of \$16,274,396. Business-Type Activities Total Capital Assets – Net of Depreciation was \$8,034,073. An expanded and detailed presentation may be seen in Note 4 of the audit, notes to financial statements.

Long-Term Debt

At year's end, long-term debt (due in more than one year) amounted to \$3,629,267. Such debt includes *Contracts Payable and Bonds Payable*, as well as *Compensated Absences*. That is, accumulated vested vacation benefits payable and contingent liability for the accumulated sick leave benefits of its employees.

Economic Factors and Next Year's Budget and Rates

The City Council and management staff are working diligently to keep expenditures down and to maintain revenue levels that are within their control. Property taxes account for over half of the City's General Fund revenues. Due to new construction and the effects of Proposal A, approved by the voters of the State of Michigan in 1994, the City will be receiving more property tax revenue in 2008/2009 than it did in 2007/2008.

Revenue sharing from the State of Michigan is the next largest revenue source for the City and this source is beyond the control of the City. The City expects to use a portion of funds accumulated from prior years to help pay for some needed street improvements during the 2008-09 fiscal year.

Employee related costs account for approximately 34% of the General Fund expenditures. Contracted and professional services account for approximately 31% of the budget while fixed costs such as rent, utilities, insurance and fees account for another 18%. The remaining portion of the budget is comprised of operating expenses such as supplies, services, maintenance, and capital improvements.

The City Council and staff will continue to monitor revenues and expenditures and take appropriate action to account for changes in economic factors.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of East Tawas Clerk's office located at 760 Newman Street, P.O. Box 672, East Tawas, Michigan, 48730.

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF NET ASSETS
September 30, 2008

	Primary Government			Component Units	
	Governmental Activities	Business- Type Activities	Total	East Tawas TIFA	East Tawas Housing Commission
<u>Assets</u>					
Cash and Cash Equivalents (Note 2)	\$ 450,945	\$ 633,420	\$ 1,084,365	\$ 1,538,668	\$ 348,445
Investments (Note 2)	2,076,162	513,826	2,589,988	206,451	0
Receivables:					
Property Taxes	1,139,286	250,865	1,390,151	158,981	0
Special Assessments	157	0	157	0	0
Accounts, Net	7,825	78,112	85,937	0	2,269
Interest	5,682	0	5,682	0	261
Due from Component Unit (Note 3)	73,569	0	73,569	0	0
Due from State	97,297	3,000	100,297	0	0
Internal Balances	32,330	(32,330)	0	0	0
Prepaid Expenses	0	0	0	0	17,214
Restricted Assets:					
Cash and Cash Equivalents (Note 2)	0	184,045	184,045	0	0
Investments (Note 2)	0	763,874	763,874	0	0
Noncurrent Assets:					
Notes Receivable	458,121	0	458,121	0	0
Investment in Huron Shore Regional Utility Authority (Note 1)	0	1,310,656	1,310,656	0	0
Bond Issuance Costs, Net (Note 1)	56,452	60,150	116,602	85,638	0
Capital Assets, Net (Note 4)	5,688,165	8,034,073	13,722,238	1,762,482	1,317,888
Total Assets	<u>10,085,991</u>	<u>11,799,691</u>	<u>21,885,682</u>	<u>3,752,220</u>	<u>1,686,077</u>
<u>Liabilities</u>					
Accounts Payable	32,875	11,183	44,058	513,253	33,509
Due to Local Units	0	0	0	0	18,567
Accrued Interest Payable	37,653	39,158	76,811	26,365	1,650
Accrued Liabilities	2,685	821	3,506	285	2,416
Due to Primary Government (Note 3)	0	0	0	0	59,739
Deferred Revenue	1,139,286	250,865	1,390,151	158,981	447
Long Term Liabilities: (Note 6)					
Due Within One Year	110,000	363,321	473,321	45,000	126,316
Due In More Than One Year	2,035,990	1,593,277	3,629,267	2,255,000	133,200
Total Liabilities	<u>3,358,489</u>	<u>2,258,625</u>	<u>5,617,114</u>	<u>2,998,884</u>	<u>375,844</u>
<u>Net Assets</u>					
Invested in Capital Assets, Net of Related Debt	3,577,245	6,708,609	10,285,854	(478,245)	1,018,149
Restricted For:					
Debt Service	1,891	932,919	934,810	0	0
Capital Projects	0	0	0	927,927	0
Replacement	0	15,000	15,000	0	0
Perpetual Care	79,353	0	79,353	0	0
Unrestricted	<u>3,069,013</u>	<u>1,884,538</u>	<u>4,953,551</u>	<u>303,654</u>	<u>292,084</u>
Total Net Assets	<u>\$ 6,727,502</u>	<u>\$ 9,541,066</u>	<u>\$ 16,268,568</u>	<u>\$ 753,336</u>	<u>\$ 1,310,233</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2008

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-Type Activities	Total	East Tawas TIFA	East Tawas Housing Commission
Primary Government									
Governmental Activities:									
General Government:									
Legislative and Executive	\$ 134,980	\$ 0	\$ 0	\$ 0	\$ (134,980)	\$ 0	\$ (134,980)		
Financial and Tax									
Administration	150,679	0	10,500	0	(140,179)	0	(140,179)		
Other General Government	334,732	50,133	200	0	(284,399)	0	(284,399)		
Public Safety:									
Police	254,131	0	0	0	(254,131)	0	(254,131)		
Fire	271,797	87,922	3,338	35,261	(145,276)	0	(145,276)		
Public Works:									
Other Public Works	894,462	19,314	407,478	0	(467,670)	0	(467,670)		
Community and Economic									
Development	75,929	100	3,450	0	(72,379)	0	(72,379)		
Recreation and Cultural	163,214	40,031	59,050	0	(64,133)	0	(64,133)		
Interest and Fees on Long-									
Term Debt	89,763	0	71,698	0	(18,065)	0	(18,065)		
Amortization of Deferred Bond									
Costs and Bond Discounts									
(Net)	<u>5,596</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(5,596)</u>	<u>0</u>	<u>(5,596)</u>		
Total Governmental									
Activities	<u>2,375,283</u>	<u>197,500</u>	<u>555,714</u>	<u>35,261</u>	<u>(1,586,808)</u>	<u>0</u>	<u>(1,586,808)</u>		
Business-Type Activities:									
Sewer Services	468,913	389,854	55,638	0	0	(23,421)	(23,421)		
Water Services	453,745	351,514	0	0	0	(102,231)	(102,231)		
City Park	<u>629,016</u>	<u>670,195</u>	<u>5,520</u>	<u>0</u>	<u>0</u>	<u>46,699</u>	<u>46,699</u>		
Total Business-Type									
Activities	<u>1,551,674</u>	<u>1,411,563</u>	<u>61,158</u>	<u>0</u>	<u>0</u>	<u>(78,953)</u>	<u>(78,953)</u>		
Total Primary Government	<u>\$ 3,926,957</u>	<u>\$ 1,609,063</u>	<u>\$ 616,872</u>	<u>\$ 35,261</u>	<u>(1,586,808)</u>	<u>(78,953)</u>	<u>(1,665,761)</u>		

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2008

Function/Program					Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Program Revenues			Primary Government			Component Units	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	East Tawas TIFA	East Tawas Housing Commission
<u>Component Units</u>									
TIFA	\$ 370,176	\$ 0	\$ 0	\$ 0				\$ (370,176)	\$ 0
Housing Commission	<u>472,196</u>	<u>282,828</u>	<u>245,134</u>	<u>0</u>				<u>0</u>	<u>55,766</u>
Total Component Units	<u>\$ 842,372</u>	<u>\$ 282,828</u>	<u>\$ 245,134</u>	<u>\$ 0</u>				<u>(370,176)</u>	<u>55,766</u>
General Revenue:									
Property Taxes Levied For:									
General Operating					\$ 1,109,938	\$ 0	\$ 1,109,938	0	0
TIFA					0	0	0	254,245	0
Sewer Debt Service					0	144,511	144,511	0	0
Water Debt Service					0	98,918	98,918	0	0
State Revenue Sharing					292,356	0	292,356	0	0
Interest and Investment Earnings					164,957	81,860	246,817	36,271	10,986
Rent Income					298,509	31,416	329,925	0	0
Sale of Capital Assets					74,000	0	74,000	0	0
Other					593	4,309	4,902	13,216	7,312
Transfers					<u>165,024</u>	<u>(165,024)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total General Revenue and Transfers					<u>2,105,377</u>	<u>195,990</u>	<u>2,301,367</u>	<u>303,732</u>	<u>18,298</u>
Change in Net Assets					518,569	117,037	635,606	(66,444)	74,064
Net Assets - Beginning (Restated)					<u>6,208,933</u>	<u>9,424,029</u>	<u>15,632,962</u>	<u>819,780</u>	<u>1,236,169</u>
Net Assets - Ending					<u>\$ 6,727,502</u>	<u>\$ 9,541,066</u>	<u>\$ 16,268,568</u>	<u>\$ 753,336</u>	<u>\$ 1,310,233</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS
Iosco County, Michigan

BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2008

		Special Revenue Fund		
	General Fund	Federal Project Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents (Note 2)	\$ 57,734	\$ 112,090	\$ 281,121	\$ 450,945
Investments (Note 2)	1,269,386	725,370	81,406	2,076,162
Receivables:				
Property Taxes	1,139,286	0	0	1,139,286
Special Assessments	157	0	0	157
Accounts, Net	6,907	918	0	7,825
Interest	5,560	0	122	5,682
Notes Receivable	0	458,121	0	458,121
Due from Component Unit (Note 3)	73,569	0	0	73,569
Due from State	54,192	0	43,105	97,297
Due from Other Funds (Note 3)	<u>40,003</u>	<u>0</u>	<u>2,146</u>	<u>42,149</u>
Total Assets	<u>\$ 2,646,794</u>	<u>\$ 1,296,499</u>	<u>\$ 407,900</u>	<u>\$ 4,351,193</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Accounts Payable	\$ 14,457	\$ 0	\$ 18,418	\$ 32,875
Due to Other Funds (Note 3)	0	0	9,819	9,819
Accrued Liabilities	1,720	0	965	2,685
Deferred Revenue (Note 5)	<u>1,144,846</u>	<u>458,121</u>	<u>0</u>	<u>1,602,967</u>
Total Liabilities	<u>1,161,023</u>	<u>458,121</u>	<u>29,202</u>	<u>1,648,346</u>
<u>Fund Equity</u>				
Fund Balances:				
Reserved For:				
Debt Service	0	0	1,891	1,891
Perpetual Care	0	0	79,353	79,353
Unreserved:				
Designated For:				
Major Streets	400,000	0	0	400,000
Local Streets	100,000	0	0	100,000
Library	250,000	0	0	250,000
Undesignated, Reported In:				
General Fund	735,771	0	0	735,771
Special Revenue Funds	<u>0</u>	<u>838,378</u>	<u>297,454</u>	<u>1,135,832</u>
Total Fund Equity	<u>1,485,771</u>	<u>838,378</u>	<u>378,698</u>	<u>2,702,847</u>
Total Liabilities and Fund Equity	<u>\$ 2,646,794</u>	<u>\$ 1,296,499</u>	<u>\$ 407,900</u>	<u>\$ 4,351,193</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS
Iosco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
September 30, 2008

Total Governmental Fund Balances		\$	2,702,847
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:			
Capital Asset Cost	\$	7,877,576	
Accumulated Depreciation		<u>(2,189,411)</u>	5,688,165
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds:			
Interest Receivable		5,560	
Notes Receivable		<u>458,121</u>	463,681
Net Difference			
Accrued Interest on Long-Term Liabilities			(37,653)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:			
Bonds Payable (Net of Unamortized Discount)		(2,073,267)	
Compensated Absences Payable		<u>(16,271)</u>	(2,089,538)
Total Long-Term Liabilities			
Total Net Assets - Governmental Activities		\$	<u><u>6,727,502</u></u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2008

		Special Revenue Fund		
	General Fund	Federal Project Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenue</u>				
Property Taxes	\$ 1,142,239	\$ 0	\$ 0	\$ 1,142,239
Federal Grants and Revenue	35,261	0	0	35,261
State Grants and Revenue	292,356	0	282,478	574,834
Contributions from Local Units	13,950	0	196,698	210,648
Licenses and Permits	3,576	0	0	3,576
Charges for Services	107,479	100	26,234	133,813
Interest and Rentals	250,286	60,613	172,347	483,246
Other Revenue	65,556	178,478	3,033	247,067
Total Revenue	<u>1,910,703</u>	<u>239,191</u>	<u>680,790</u>	<u>2,830,684</u>
<u>Expenditures</u>				
Current:				
General Government:				
Legislative	57,038	0	0	57,038
Chief Executive	73,314	0	0	73,314
Financial and Tax Administration	154,555	0	0	154,555
Other General Government	245,820	0	10,232	256,052
Public Safety	391,354	0	0	391,354
Public Works	462,702	0	335,001	797,703
Community and Economic Development	74,069	119	0	74,188
Recreation and Cultural	44,466	0	115,420	159,886
Capital Outlay	53,741	0	492,521	546,262
Debt Service:				
Principal	0	0	165,000	165,000
Interest and Fiscal Charges	0	0	96,935	96,935
Total Expenditures	<u>1,557,059</u>	<u>119</u>	<u>1,215,109</u>	<u>2,772,287</u>
Excess of Revenue Over (Under)				
Expenditures	<u>353,644</u>	<u>239,072</u>	<u>(534,319)</u>	<u>58,397</u>
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	0	0	74,000	74,000
Operating Transfers In	135,024	0	490,505	625,529
Operating Transfers Out	(335,431)	0	(125,074)	(460,505)
Total Other Financing Sources (Uses)	<u>(200,407)</u>	<u>0</u>	<u>439,431</u>	<u>239,024</u>
Excess of Revenue and Other Sources Over				
(Under) Expenditures and Other Uses	153,237	239,072	(94,888)	297,421
Fund Balances - Beginning of Year (Restated)	<u>1,332,534</u>	<u>599,306</u>	<u>473,586</u>	<u>2,405,426</u>
Fund Balances - End of Year	<u>\$ 1,485,771</u>	<u>\$ 838,378</u>	<u>\$ 378,698</u>	<u>\$ 2,702,847</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS
Iosco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2008

Total Net Change in Fund Balances - Governmental Funds		\$	297,421
Amounts reported for governmental activities in the statement of activities are different because:			
Receivables not currently available are reported as revenue when collected or when currently available in the fund financial statements but are recognized as revenue when earned in the government-wide financial statements:			
Interest Receivable			2,622
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.			
Capital Outlay	\$	492,521	
Current Year Depreciation Expense		<u>(276,997)</u>	
Net difference			215,524
Note receivable repayments and note disbursements are revenue and expenditures respectively in the governmental funds, but the repayments and disbursements reduce and increase the note receivable balances in the statement of net assets. The activity reported in the governmental funds is as follows:			
Current Year Note Receivable Principal Receipts			(178,478)
Principal repayments on long-term debt are reported as expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The amount of repayments reported as expenditures in the governmental funds consist of:			
Bonds Payable			165,000
Governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of long-term liabilities is as follows:			
Amortization of Bond Costs			(5,596)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:			
Net Change in Accrued Interest		7,172	
Net Change in Accrued Compensated Absences		<u>14,904</u>	
			<u>22,076</u>
Change in Net Assets of Governmental Activities		\$	<u><u>518,569</u></u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2008

	Enterprise Funds			
	Major Funds			
	Sewer Fund	Water Fund	City Park Fund	Total
<u>Assets</u>				
Current Assets:				
Cash and Cash Equivalents (Note 2)	\$ 36,271	\$ 120,935	\$ 476,214	\$ 633,420
Investments (Note 2)	100,000	403,542	10,284	513,826
Receivables:				
Property Taxes	149,231	101,634	0	250,865
Accounts, Net	41,405	36,707	0	78,112
Due from State	0	0	3,000	3,000
Restricted Assets:				
Cash and Cash Equivalents (Note 2)	167,441	16,604	0	184,045
Investments (Note 2)	616,629	147,245	0	763,874
Total Current Assets	<u>1,110,977</u>	<u>826,667</u>	<u>489,498</u>	<u>2,427,142</u>
Noncurrent Assets:				
Investment in Huron Shore Regional Utility Authority (Note 1)	0	1,310,656	0	1,310,656
Bond Issuance Costs, Net (Note 1)	0	60,150	0	60,150
Capital Assets, Net (Note 4)	<u>3,161,384</u>	<u>2,922,264</u>	<u>1,950,425</u>	<u>8,034,073</u>
Total Noncurrent Assets	<u>3,161,384</u>	<u>4,293,070</u>	<u>1,950,425</u>	<u>9,404,879</u>
Total Assets	<u>4,272,361</u>	<u>5,119,737</u>	<u>2,439,923</u>	<u>11,832,021</u>
<u>Liabilities</u>				
Current Liabilities:				
Accounts Payable	628	157	10,398	11,183
Due to Other Funds (Note 3)	3,005	3,146	26,179	32,330
Accrued Interest Payable	9,051	30,107	0	39,158
Accrued Liabilities	363	458	0	821
Deferred Revenue	149,231	101,634	0	250,865
Current Portion of Long-Term Liabilities (Note 6)	<u>226,364</u>	<u>136,957</u>	<u>0</u>	<u>363,321</u>
Total Current Liabilities	<u>388,642</u>	<u>272,459</u>	<u>36,577</u>	<u>697,678</u>
Long-Term Liabilities:				
Due in More Than One Year (Note 6)	<u>150,190</u>	<u>1,437,742</u>	<u>5,345</u>	<u>1,593,277</u>
Total Liabilities	<u>538,832</u>	<u>1,710,201</u>	<u>41,922</u>	<u>2,290,955</u>
<u>Net Assets</u>				
Invested In Capital Assets, Net of Related Debt	3,084,728	1,673,456	1,950,425	6,708,609
Restricted For:				
Debt Service	769,070	163,849	0	932,919
Replacement	15,000	0	0	15,000
Unrestricted	<u>(135,269)</u>	<u>1,572,231</u>	<u>447,576</u>	<u>1,884,538</u>
Total Net Assets	<u>\$ 3,733,529</u>	<u>\$ 3,409,536</u>	<u>\$ 2,398,001</u>	<u>\$ 9,541,066</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Year Ended September 30, 2008

	Enterprise Funds			
	Major Funds			
	Sewer Fund	Water Fund	City Park Fund	Total
<u>Operating Revenue</u>				
Charges For Services	\$ 376,425	\$ 346,815	\$ 670,195	\$ 1,393,435
Service Connection Charges	8,200	0	0	8,200
Penalties	5,229	4,699	0	9,928
Hydrant Rental	0	31,416	0	31,416
Other Revenue	284	932	3,093	4,309
Total Operating Revenue	<u>390,138</u>	<u>383,862</u>	<u>673,288</u>	<u>1,447,288</u>
<u>Operating Expenses</u>				
Salaries and Wages	44,295	42,383	170,206	256,884
Payroll Taxes and Employee Benefits	30,176	29,901	51,372	111,449
Advertising	0	0	2,796	2,796
Contractual Services	209,366	131,012	5,178	345,556
Depreciation and Amortization	126,921	126,342	173,827	427,090
Equipment	0	0	7,887	7,887
Equipment Rental	13,043	13,606	0	26,649
Insurance and Bonds	1,823	868	22,016	24,707
Office Supplies	3,413	3,539	0	6,952
Operating Supplies	6,614	27,514	18,657	52,785
Printing and Advertising	191	0	0	191
Professional Fees and Services	0	0	35,309	35,309
Repair and Maintenance	2,093	3,210	35,887	41,190
Travel and Training	0	1,507	0	1,507
Utilities	7,305	0	95,429	102,734
Other	0	4,106	10,452	14,558
Total Operating Expenses	<u>445,240</u>	<u>383,988</u>	<u>629,016</u>	<u>1,458,244</u>
Operating Income (Loss)	<u>(55,102)</u>	<u>(126)</u>	<u>44,272</u>	<u>(10,956)</u>
<u>Nonoperating Revenue (Expenses)</u>				
Property Taxes	144,511	98,918	0	243,429
Federal Grants and Revenue	0	0	5,520	5,520
Interest and Investment Earnings	45,990	26,650	9,220	81,860
Contributions	55,638	0	0	55,638
Interest and Fees Expense	(23,673)	(69,757)	0	(93,430)
Total Nonoperating Revenue (Expenses)	<u>222,466</u>	<u>55,811</u>	<u>14,740</u>	<u>293,017</u>
Income Before Operating Transfers	167,364	55,685	59,012	282,061
Operating Transfers Out	<u>0</u>	<u>0</u>	<u>(165,024)</u>	<u>(165,024)</u>
Change in Net Assets	167,364	55,685	(106,012)	117,037
Net Assets - Beginning of Year, as Restated	<u>3,566,165</u>	<u>3,353,851</u>	<u>2,504,013</u>	<u>9,424,029</u>
Net Assets - End of Year	<u>\$ 3,733,529</u>	<u>\$ 3,409,536</u>	<u>\$ 2,398,001</u>	<u>\$ 9,541,066</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2008

	Enterprise Funds			
	Major Funds			
	Sewer Fund	Water Fund	City Park Fund	Total
Cash Flows From Operating Activities				
Receipts From Customers	\$ 389,434	\$ 392,997	\$ 674,185	\$ 1,456,616
Payments to Suppliers for Goods and Services	(246,577)	(185,212)	(228,663)	(660,452)
Payments to Employees for Services	(74,379)	(72,097)	(227,357)	(373,833)
Net Cash Provided by Operating Activities	<u>68,478</u>	<u>135,688</u>	<u>218,165</u>	<u>422,331</u>
Cash Flows From Non-Capital Financing Activities				
Property Taxes Received	144,511	98,918	0	243,429
Intergovernmental Contributions	55,638	0	0	55,638
Cash Received from (Paid to) Other funds	(3,284)	1,077	(178,306)	(180,513)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>196,865</u>	<u>99,995</u>	<u>(178,306)</u>	<u>118,554</u>
Cash Flows From Capital and Related Financing Activities				
Acquisition and Construction of Capital Assets	(151,602)	(29,539)	(64,283)	(245,424)
Principal Paid on Long-Term Debt	(184,120)	(126,238)	0	(310,358)
Interest and Fees Paid on Long-Term Debt	(27,514)	(75,923)	0	(103,437)
Net Cash Used by Capital and Related Financing Activities	<u>(363,236)</u>	<u>(231,700)</u>	<u>(64,283)</u>	<u>(659,219)</u>
Cash Flows From Investing Activities				
Interest on Investments	45,990	26,650	8,936	81,576
Proceeds from Maturity of Investment Securities	925,556	582,928	0	1,508,484
Purchase of Investment Securities	(956,007)	(772,145)	0	(1,728,152)
Net Cash Provided (Used) by Investing Activities	<u>15,539</u>	<u>(162,567)</u>	<u>8,936</u>	<u>(138,092)</u>
Net Decrease in Cash and Cash Equivalents	(82,354)	(158,584)	(15,488)	(256,426)
Cash and Cash Equivalents at Beginning of Year (Note 1)	<u>286,066</u>	<u>296,123</u>	<u>491,702</u>	<u>1,073,891</u>
Cash and Cash Equivalents at End of Year (Note 1)	<u>\$ 203,712</u>	<u>\$ 137,539</u>	<u>\$ 476,214</u>	<u>\$ 817,465</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities				
Operating Income (Loss)	\$ (55,102)	\$ (126)	\$ 44,272	\$ (10,956)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Capital Assets Written-Off	0	0	21,163	21,163
Depreciation and Amortization Expense	126,921	126,342	173,827	427,090
Change in Assets and Liabilities:				
Accounts Receivable, Net	(704)	9,135	0	8,431
Accounts Payable and Accrued Liabilities	(2,366)	608	(15,318)	(17,076)
Accrued Compensated Absences	(271)	(271)	(5,779)	(6,321)
Net Cash Provided by Operating Activities	<u>\$ 68,478</u>	<u>\$ 135,688</u>	<u>\$ 218,165</u>	<u>\$ 422,331</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2008

Supplemental Disclosures:

Noncash Capital and Related Financing Activities

The Water Fund recorded noncash activity in the form of an increase in contracts payable and investment in Huron Shore Regional Utility Authority of \$21,700. This was the result of an increase in the City of East Tawas' actual water usage percentage in the current year's joint venture membership gallon usage calculation.

The City Park Fund recorded noncash activity in the form of an increase in Professional Fees and Services Expense and a decrease in Capital Assets, Net of \$21,163. This was the result of expensing engineering fees that were capitalized in the prior year.

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 FIDUCIARY FUNDS
September 30, 2008

	<u>Tax Account</u>	<u>Trust and Agency Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents (Note 2)	\$ 1,404,501	\$ 3,301	\$ 1,407,802
Receivables:			
Property Taxes	<u>370,731</u>	<u>0</u>	<u>370,731</u>
Total Assets	<u>\$ 1,775,232</u>	<u>\$ 3,301</u>	<u>\$ 1,778,533</u>
<u>LIABILITIES</u>			
Due to Local Units	\$ 1,775,232	\$ 659	\$ 1,775,891
Due to Other Agencies and Individuals	<u>0</u>	<u>2,642</u>	<u>2,642</u>
Total Liabilities	<u>\$ 1,775,232</u>	<u>\$ 3,301</u>	<u>\$ 1,778,533</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of East Tawas (City) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. Private-sector standards of accounting issued after November 30, 1989, are generally followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies:

A. Description of City Operations and Fund Types

The City of East Tawas is organized under Michigan's Comprehensive Home Rule City Act. The City operates under an elected City Council (seven members) and provides services to its residents in many areas, including fire protection, water and sewer services, and maintenance of major and local streets. All activities over which the City exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability of fiscal matters of the entity.

Education services are provided to citizens through the local school district which is a separate governmental entity and is not part of this report.

B. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the City are not misleading. The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs of services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes.

1. Blended Component Units

a. Governmental Activity and Fund Type Blended Component Unit:

East Tawas Building Authority - The City of East Tawas Building Authority is governed by a three member board appointed by the City's governing body. Although it is legally separate from the City of East Tawas, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public buildings.

b. Business-Type Activity and Proprietary Fund Type Blended Component Unit:

East Tawas City Park - The East Tawas City Park is legally separate from the City. The City Park is reported as if it were part of the primary government because its sole purpose is to finance, construct and operate the City's park facilities. The financial activities of the East Tawas City Park are recorded in an Enterprise Fund, which is accounted for using the accrual basis of accounting.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Reporting Entity (Continued)

2. Discretely Presented Component Units

The component unit columns on the combined financial statements include the financial data of the City's component units. They are reported in separate columns to emphasize that they are legally separate from the City.

a. Governmental Activity and Fund Type Component Unit:

East Tawas Tax Increment Finance Authority - The East Tawas Tax Increment Finance Authority (TIFA) is governed by a seven member board appointed by the City's governing body. The TIFA is reported in a separate column to emphasize that it is legally separate from the City. The TIFA's sole purpose is to finance improvements within the TIFA District of the City of East Tawas. Separate financial statements for the TIFA are not prepared.

b. Business-Type Activity and Proprietary Fund Type Blended Component Unit:

East Tawas Housing Commission - The component unit columns include the financial data of the East Tawas Housing Commission as of and for the year ended December 31, 2007. The Housing Commission is reported in a separate column to emphasize that it is legally separate from the City. The governing body of this component unit is appointed by the City Council. The Housing Commission was created by an ordinance of the City of East Tawas to provide safe, sanitary and decent housing for qualifying senior and low income families. Complete financial statements can be obtained from the East Tawas Housing Commission office.

C. Joint Ventures

The City has entered into several joint ventures with various municipalities described as follows:

Tawas Police Authority

The Tawas Police Authority functions as a joint venture between the City of East Tawas and the City of Tawas City. The Authority was established to provide police protection to the constituent municipalities, the City of East Tawas and the City of Tawas City and other municipalities by contract. The constituent municipalities each contribute equal amounts yearly based on the approved budgeted expenditures for the Authority. The City of East Tawas' contribution for the year ended September 30, 2008 was \$250,000. Complete financial statements can be obtained from the City of Tawas City, Clerk's office, located at 516 Oak Street, Tawas City, Michigan 48763.

Tawas Utility Authority

The Tawas Utility Authority was established as a joint venture between the City of East Tawas and the City of Tawas City. The Authority was established for the construction and operation of sewage treatment facilities to service both municipalities. The constituent municipalities each contribute equal amounts yearly based on the approved budgeted expenditures for the Authority. The City of East Tawas' contribution for the year ended September 30, 2008 was \$202,150. Complete financial statements can be obtained from the City of East Tawas, City Manager's office.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Joint Ventures (Continued)

Huron Shore Regional Utility Authority

The Huron Shore Regional Utility Authority was established as a joint venture between the City of East Tawas, City of Tawas City, Charter Township of Oscoda, Charter Township of AuSable, Township of Alabaster, Township of Baldwin, all municipalities in Iosco County, and the Township of Greenbush in Alcona County. The Authority was established to acquire, own, improve, enlarge, extend and operate water supply and distribution systems and sewage disposal systems. The initial contract amount plus any adjustment for the City of East Tawas' share of the contracts is recorded as Investment in Huron Shore Regional Utility Authority in the Water Fund of the City because title to the water and sewer systems belongs to the Authority.

The construction was originally funded with the proceeds of the Iosco County Limited Tax General Obligation Bonds dated March 1, 1991. The most current estimate of the City's share is 17.01% of the total bond issue of \$7,930,000 or \$1,348,893. Each entity's percentage of payback will be based on actual gallon usage to be adjusted on an annual basis. The assets of the joint water supply system are the property of the Huron Shore Regional Utility Authority and, therefore, are not presented in these financial statements. The members of this joint venture have pledged their full faith and credit for the payment and are obligated to make such payments from their water funds, including ad-valorem taxes, if necessary. Currently, the City of East Tawas is making payments through ad-valorem taxes and charges for services.

Each municipality makes an annual operation and maintenance contribution based on their proportionate share of the adopted annual budget. The City of East Tawas' contribution for the year ended September 30, 2008 was \$121,824. The current value of the City of East Tawas' investment in the Huron Shore Regional Utility Authority is \$1,310,656. Complete financial statements can be obtained from the Huron Shore Regional Utility Authority's office.

D. Basis of Presentation

The City's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government and its component units, except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for support.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type, and are excluded from the government-wide financial statements.

E. Fund Accounting

The City uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain City functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - This fund accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, charges for services and state revenue.

Federal Project Fund - This fund is used to account for loans to local businesses for the purpose of community and economic development.

The other governmental funds of the City accounts for grants and other resources whose use is restricted for a particular purpose; the accumulation of resources for, and the payment of debt.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Continued)

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The City's enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Sewer Fund - This fund accounts for fees collected for sewer services provided by the City and a city-wide property tax levy.

Water Fund - This fund accounts for fees collected for water services provided by the City and a city-wide property tax levy.

City Park Fund - This fund accounts for fees collected for park services provided by the City.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The City's agency funds account for assets held by the City for political subdivisions in which the City acts as fiscal agent for others. The City uses these funds to account for current tax collections and deposits held for hall rental.

F. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and all liabilities associated with the operation of the City are included on the statement of net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in revenue, expenses, and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the City finances and meets the cash flow needs of its enterprise activities.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide, proprietary and fiduciary funds financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from sales taxes is recognized in the period in which the sales are made. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: sales taxes, charges for services, fines and forfeitures, state-levied locally shared taxes (including sales tax), grants, interest and rent.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there was an enforceable legal claim at September 30, 2008, but were levied to finance 2008-2009 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

On governmental fund financial statements, receivables that were not collected within the available period are recorded as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Cash and Cash Equivalents

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported at fair value, except for repurchase agreements and certificates of deposit which are reported at cost which approximates fair value. Fair value is based on quoted market prices. Mutual funds are reported at current share price.

I. Receivables

Receivables generally consist of accounts (fees), sales taxes, shared revenues, property taxes, special assessments, and interest. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

The allowance for doubtful accounts at September 30, 2008 was \$0 for the primary government and the component units.

J. Interfund Receivables and Payables

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "due from/to other funds". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets.

K. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

L. Bond Issuance Costs

On the government-wide and proprietary fund financial statements, bond issuance costs are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method. In the governmental funds, these costs are reported as expenditures when the related liability is incurred.

M. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column of the government-wide statement of net assets and in the respective funds.

Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Capital Assets (Continued)

The City's infrastructure consists of roads, bridges, dams and water and sewer lines. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Estimated Lives</u>
Buildings and Improvements	25 - 50 years
Land Improvements	10 - 20 years
Machinery and Equipment	5 - 10 years
Vehicles	5 - 10 years
Utility Systems	25 - 40 years
Infrastructure	20 - 40 years

N. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise fund are reported on the enterprise fund statement. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

O. Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation and sick leave benefits are accrued as a liability using the vesting method. An accrual for earned vacation and sick leave is made based on accumulated vacation and sick leave and the employee wage rates at year end taking into consideration limits specified in the City's termination policy. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The City records a liability for sick leave earned at varying rates depending on the City policy.

The entire compensated absences liability is reported on the government-wide financial statements. On the governmental fund financial statements, the current portion of unpaid compensated absences is recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts, if any, are recorded in the account "Accrued Compensated Absences Payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported in the governmental fund financial statements. For enterprise funds, the entire amount of compensated absences is reported as a fund liability.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Q. Governmental Fund Balance Reserves

The City reserves those portions of governmental fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates the portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for future debt service and perpetual care expenses.

R. Governmental Fund Balance Designations

Designations of portions of the fund balance are established to indicate tentative plans for financial resource utilization in a future period. Fund balance designations have been established for future major street, local street and library expenditures.

S. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the City, these revenues are charges for services for water, sewer and park usage. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

T. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

U. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended September 30, 2008.

V. Budgets and Budgetary Accounting

The City of East Tawas normally follows these procedures in establishing the budgetary data reflected in the financial statements.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. Budgets and Budgetary Accounting (Continued)

1. Prior to September 1, the City Clerk submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. This operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the governmental center to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of an ordinance.
4. All budget appropriations lapse at year-end. Budgetary amounts reported herein are as originally adopted, and as amended by the City Council throughout the operating year.

The City adopts budgets for the General Fund and Special Revenue Funds.

The budgets of the City are prepared on the same basis of accounting as the financial statement presentation. The budgets were adopted at the functional level.

The legal level of control is at the functional level for the General Fund and Special Revenue Funds.

Revisions that alter the total expenditures of any fund or total department expenditures must be approved by the City Council. The financial statements include budgetary amounts as amended.

W. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

X. Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Cash and Cash Equivalents	\$ 450,945	\$ 633,420	\$ 1,407,802	\$ 2,492,167	\$ 1,887,113
Investments	2,076,162	513,826	0	2,589,988	206,451
Restricted Cash and Cash Equivalents	0	184,045	0	184,045	0
Restricted Investments	<u>0</u>	<u>763,874</u>	<u>0</u>	<u>763,874</u>	<u>0</u>
Total	<u>\$ 2,527,107</u>	<u>\$ 2,095,165</u>	<u>\$ 1,407,802</u>	<u>\$ 6,030,074</u>	<u>\$ 2,093,564</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Units</u>
Bank Deposits (Checking and Savings Accounts and Certificates of Deposit)	\$ 3,607,599	\$ 1,956,671
Investments in Financial Institution Pooled Funds	2,421,945	136,693
Petty Cash and Cash on Hand	<u>530</u>	<u>200</u>
Total	\$ <u>6,030,074</u>	\$ <u>2,093,564</u>

As of September 30, 2008, the City had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Primary Government: Investment Pools	\$ <u>2,421,945</u>	Daily
Component Units: Investment Pools	\$ <u>136,693</u>	Daily

Interest Rate Risk

In accordance with its investment policy, the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City's known cash requirements.

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a local government unit in Michigan. The City's Huron Community Bank investment pool's are unrated. The City's MBIA Asset Management Group investment pool's are rated AAA/V1+ by Fitch.

Custodial Credit Risk - Deposits - Primary Government

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of September 30, 2008, \$3,453,750 of the City's bank balance of \$3,772,759 was exposed to custodial credit risk because it was uninsured and uncollateralized.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk - Deposits - Component Units

East Tawas TIFA:

In the case of deposits, this is the risk that in the event of a bank failure, the component unit's deposits may not be returned to it. As of September 30, 2008, \$1,606,894 of the TIFA's bank balance of \$1,606,894 was exposed to custodial credit risk because it was uninsured and uncollateralized.

East Tawas Housing Commission:

In the case of deposits, this is the risk that in the event of a bank failure, the component unit's deposits may not be returned to it. As of December 31, 2007, \$0 of the East Tawas Housing Commission's bank balance of \$348,245 was exposed to custodial credit risk.

Concentration of Credit Risk

The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The City's investment policy requires that no more than 50% of the total investment portfolio be invested with a single financial institution, with the exception of US Treasury securities and authorized pools. To ensure that the City does not over-concentrate in any one investment, the City shall limit its investments to no more than 5% in any one issue.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The City will minimize custodial credit risk, by; limiting investments to the types of securities approved in the City's investment policy which is in accordance with State law, and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the City will do business.

Foreign Currency Risk

The City's investment policy does not address foreign currency risk.

Investments

The City Council has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the City to deposit and invest in the following:

- Accounts of federally insured banks, credit unions and savings and loan associations
- Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- Banker's acceptances of United States banks
- Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

- Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The City's deposits and investments are in accordance with statutory authority.

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of September 30, 2008 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds:		
General Fund	\$ <u>40,003</u>	\$ <u>0</u>
Non-major Governmental Funds	<u>2,146</u>	<u>9,819</u>
Major Enterprise Funds:		
Sewer Fund	0	3,005
Water Fund	0	3,146
City Park Fund	0	26,179
Total Major Enterprise Funds	<u>0</u>	<u>32,330</u>
	\$ <u>42,149</u>	\$ <u>42,149</u>
<u>Due from Component Unit</u>	<u>Due to Primary Government</u>	
General Fund \$ <u>73,569</u> *	East Tawas Housing Commission \$ <u>59,739</u>	

These balances result from the time lag between the dates that interfund goods and services are provided, transactions are recorded in the accounting system, and payments between funds are made.

* The Due from (to) component unit does not offset due to different fiscal year ends between the City and the East Tawas Housing Commission. \$59,739 of this balance will not be repaid within one year. This loan will be repaid by the East Tawas Housing Commission in four annual installments beginning in 2010. Interest will be charged at the prevailing interest rate, which is currently 4.39%. The remaining \$13,830 of the balance is the East Tawas Housing Commission's share of payroll and insurance paid by the City's General Fund subsequent to December 31, 2007.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the primary government for the fiscal year ended September 30, 2008, was as follows:

	Balance 10/01/07	Additions	Deletions	Balance 09/30/08
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,004,266	\$ 0	\$ 0	\$ 1,004,266
Construction in Progress	<u>0</u>	<u>17,671</u>	<u>0</u>	<u>17,671</u>
Subtotal	<u>1,004,266</u>	<u>17,671</u>	<u>0</u>	<u>1,021,937</u>
Capital Assets Being Depreciated:				
Land Improvements	187,750	0	0	187,750
Buildings and Improvements	2,930,811	0	0	2,930,811
Machinery and Equipment	825,354	95,508	0	920,862
Vehicles	970,408	379,342	(136,525)	1,213,225
Infrastructure - Roads	<u>1,602,991</u>	<u>0</u>	<u>0</u>	<u>1,602,991</u>
Subtotal	<u>6,517,314</u>	<u>474,850</u>	<u>(136,525)</u>	<u>6,855,639</u>
Less Accumulated Depreciation for:				
Land Improvements	(10,266)	(9,998)	0	(20,264)
Buildings and Improvements	(705,333)	(71,917)	0	(777,250)
Machinery and Equipment	(590,708)	(57,986)	0	(648,694)
Vehicles	(652,498)	(97,021)	136,525	(612,994)
Infrastructure - Roads	<u>(90,134)</u>	<u>(40,075)</u>	<u>0</u>	<u>(130,209)</u>
Subtotal	<u>(2,048,939)</u>	<u>(276,997)</u>	<u>136,525</u>	<u>(2,189,411)</u>
Capital Assets Being Depreciated	<u>4,468,375</u>	<u>197,853</u>	<u>0</u>	<u>4,666,228</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 5,472,641</u>	<u>\$ 215,524</u>	<u>\$ 0</u>	<u>\$ 5,688,165</u>
	Balance 10/01/07	Additions	Deletions	Balance 09/30/08
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 240,565	\$ 27,069	\$ 0	\$ 267,634
Construction in Progress	<u>21,163</u>	<u>0</u>	<u>(21,163)</u>	<u>0</u>
Subtotal	<u>261,728</u>	<u>27,069</u>	<u>(21,163)</u>	<u>267,634</u>
Capital Assets Being Depreciated:				
Land Improvements	3,816,082	30,976	0	3,847,058
Buildings	960,080	0	0	960,080
Machinery and Equipment	628,327	6,239	0	634,566
Water System	4,966,253	29,539	0	4,995,792
Sewer System	<u>5,417,664</u>	<u>151,602</u>	<u>0</u>	<u>5,569,266</u>
Subtotal	<u>15,788,406</u>	<u>218,356</u>	<u>0</u>	<u>16,006,762</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	Balance 10/01/07	Additions	Deletions	Balance 09/30/08
<u>Business-Type Activities (Continued)</u>				
Less Accumulated Depreciation for:				
Land Improvements	\$ (2,417,963)	\$ (147,544)	\$ 0	\$ (2,565,507)
Buildings	(502,557)	(27,380)	0	(529,937)
Machinery and Equipment	(552,383)	(15,200)	0	(567,583)
Water System	(1,973,983)	(116,931)	0	(2,090,914)
Sewer System	(2,370,224)	(116,158)	0	(2,486,382)
Subtotal	<u>(7,817,110)</u>	<u>(423,213)</u>	<u>0</u>	<u>(8,240,323)</u>
Business-Type Activities Total				
Capital Assets - Net of Depreciation	\$ <u>8,233,024</u>	\$ <u>(177,788)</u>	\$ <u>(21,163)</u>	\$ <u>8,034,073</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities

General Government:	
Other General Government	\$ 77,006
Public Safety:	
Fire	91,316
Public Works:	
Other Public Works	102,563
Community and Economic Development	1,741
Recreation and Cultural	<u>4,371</u>
Total Governmental Activities	\$ <u>276,997</u>

Business-Type Activities

Sewer	\$ 126,921
Water	122,465
City Park	<u>173,827</u>
Total Business-Type Activities	\$ <u>423,213</u>

Capital asset activity of the East Tawas TIFA for the current year is as follows:

	Balance 10/01/07	Additions	Deletions	Balance 09/30/08
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ <u>0</u>	\$ <u>1,465,116</u>	\$ <u>0</u>	\$ <u>1,465,116</u>
Capital Assets Being Depreciated				
Land Improvements	292,081	10,680	0	302,761
Machinery and Equipment	<u>25,735</u>	<u>0</u>	<u>0</u>	<u>25,735</u>
Subtotal	<u>317,816</u>	<u>10,680</u>	<u>0</u>	<u>328,496</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	Balance 10/1/2007	Additions	Deletions	Balance 9/30/2008
<u>Governmental Activities (Continued)</u>				
Less Accumulated Depreciation for:				
Land Improvements	\$ (10,678)	\$ (14,827)	\$ 0	\$ (25,505)
Machinery and Equipment	(1,828)	(3,797)	0	(5,625)
Subtotal	(12,506)	(18,624)	0	(31,130)
Capital Assets Being Depreciated	305,310	(7,944)	0	297,366
Governmental Activities Total				
Capital Assets - Net of Depreciation	\$ 305,310	\$ 1,457,172	\$ 0	\$ 1,762,482

Depreciation expense was charged to programs of the East Tawas TIFA as follows:

<u>Governmental Activities</u>	
Community and Economic Development	\$ 18,624

Capital Asset activity of the East Tawas Housing Commission for the current year is as follows:

	Balance 01/01/07	Additions	Deletions	Balance 12/31/07
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 205,892	\$ 0	\$ 0	\$ 205,892
Capital Assets Being Depreciated:				
Buildings	2,888,554	0	0	2,888,554
Furniture and Equipment	86,203	423	0	86,626
	2,974,757	423	0	2,975,180
Less Accumulated Depreciation	(1,761,830)	(101,354)	0	(1,863,184)
Net Capital Assets Being Depreciated	1,212,927	(100,931)	0	1,111,996
Business-Type Activities				
Capital Assets - Net	\$ 1,418,819	\$ (100,931)	\$ 0	\$ 1,317,888

Depreciation expense was charged in full to the East Tawas Housing Commission function.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 5 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Real and Personal Property Taxes	\$ 0	\$ 1,139,286	\$ 1,139,286
Interest Receivable	5,560	0	5,560
Notes Receivable	<u>458,121</u>	<u>0</u>	<u>458,121</u>
Total	<u>\$ 463,681</u>	<u>\$ 1,139,286</u>	<u>\$ 1,602,967</u>

NOTE 6 - LONG-TERM LIABILITIES

Primary Government:

A. Bonds Payable

	<u>Governmental</u>	<u>Business-Type</u>
General Obligation Bonds:		
\$2,000,000 1999 Building Authority Limited Tax General Obligation Bonds, dated June 1, 1999 for the purpose of paying the cost of acquiring, constructing and equipping a community center and City Hall Building, which the City has leased in return for the payment of certain rentals pursuant to a Limited Tax Full Faith and Credit General Obligation Contract of Lease between the City and the Authority. The bonds bear interest at 5.10% and are due in annual installments through year 2009.	\$ 130,000	\$ 0
\$630,000 Limited Tax General Obligation Construction Bonds, dated August 1, 2003 for the purpose of paying part of the cost of acquiring and constructing street improvements. The bonds bear interest at 4.125% and are due in annual installments through 2018.	455,000	0
\$1,575,000 2007 Building Authority Refunding Bonds Limited Tax General Obligation Bonds, dated March 29, 2007 for the purpose of advance refunding the 1999 Building Authority Limited Tax General Obligation Bonds. The bonds bear interest at 4% - 4.125% and are due in annual installments through 2023.	<u>1,575,000</u>	<u>0</u>
Total General Obligation Bonds	<u>2,160,000</u>	<u>0</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

Primary Government: (Continued)

A. Bonds Payable (Continued)

	<u>Governmental</u>	<u>Business-Type</u>
Revenue Bonds:		
\$1,485,000 Water Supply System Revenue Bonds, dated July 1, 1999 used for the purpose of defraying the cost of acquiring and constructing extensions and improvements to the City of East Tawas water supply system. The bonds bear interest at 5.3% and are due in annual installments through 2009.	\$ 0	\$ 35,000
\$1,275,000 2007 Water Supply System Refunding Bonds, dated March 29, 2007 for the purpose of advance refunding the \$1,485,000 Water Supply System Revenue Bonds. The bonds bear interest at 3.625% - 5% and are due in annual installments through 2029.	0	1,270,000
\$460,000 Sewage Disposal System Revenue Bonds, dated April 2, 1997 used for the cost of acquiring and constructing sanitary sewer improvements. The bonds bear interest from 4.1% - 5.3% and are due in annual installments through 2009.	<u>0</u>	<u>75,000</u>
Total Revenue Bonds	<u>0</u>	<u>1,380,000</u>
Total Bonds Payable	<u>2,160,000</u>	<u>1,380,000</u>

B. Contracts Payable

	<u>Governmental</u>	<u>Business-Type</u>
Joint waste water treatment plant with the City of Tawas City through the Iosco County Board of Public Works to refund a portion of the Iosco County Sewer System #3 general obligation bonds dated December 1, 1987, due in annual installments through November 1, 2009, bearing interest at the rates of 4.5% to 5.9%. The most current estimate of the City's share is 38.32% of the total Refunding bond issue of \$4,250,000 or \$1,628,600.	0	300,812
Joint water supply system agreement with the City of Tawas City, the Charter Townships of AuSable and Oscoda, and the Township of Baldwin through the Huron Shore Regional Utility Authority, dated May 1, 1996, due in annual installments through November 1, 2010, bearing interest at the rates of 4% to 5.65% to finance the cost of constructing a new water supply system. The construction was originally funded with the proceeds of the Iosco County Limited Tax General Obligation Bonds dated March 1, 1991. The most current estimate of the City's share is 17.01% of the total bond issue cost of \$7,930,000 or \$1,348,893.	<u>0</u>	<u>288,319</u>
Total Contracts Payable	<u>0</u>	<u>589,131</u>
Total Primary Government	<u>\$ 2,160,000</u>	<u>\$ 1,969,131</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

Component Units:

C. Bonds Payable

	<u>Governmental</u>	<u>Business-Type</u>
Governmental Activities		
East Tawas TIFA - \$2,300,000 Limited Tax General Obligation 2008 Development Bonds, dated June 23, 2008 for the purpose of paying the cost of streetscape improvements. The bonds bear interest from 3.8% - 5% and are due in annual installments through 2033.	\$ 2,300,000	\$ 0
Business-Type Activities:		
Housing Commission - \$1,130,000 1998 General Obligation Unlimited Tax Refunding Bonds, dated September 29, 1998 used for Section 8 Senior Citizens Housing. The bonds bear interest from 3.65% - 4.15% and are due in annual installments through 2009.	<u>0</u>	<u>240,000</u>
Total Component Units	<u>\$ 2,300,000</u>	<u>\$ 240,000</u>

D. Compensated Absences Payable

The City has an accrued liability for accumulated vested vacation and sick leave benefits of its employees. As of September 30, 2008, the accumulated vested vacation and sick leave benefits of the employees of various City departments and its component unit were as follows:

	<u>Current Liability 09/30/08</u>	<u>Long-Term Liability 09/30/08</u>	<u>Total Balance 09/30/08</u>
<u>Accrued Employee Benefits Payable</u>			
<u>Primary Government</u>			
Governmental Activities	\$ 0	\$ 16,271	\$ 16,271
Business-Type Activities	<u>0</u>	<u>6,829</u>	<u>6,829</u>
	<u>\$ 0</u>	<u>\$ 23,100</u>	<u>\$ 23,100</u>
<u>Component Unit</u>			
East Tawas Housing Commission	<u>\$ 6,316</u>	<u>\$ 13,200</u>	<u>\$ 19,516</u>

E. Defeasance of Debt

On March 29, 2007 the City defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds beginning in 2009 and ending in 2023. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At September 30, 2008, \$1,480,000 of bonds outstanding are considered defeased.

On March 29, 2007 the City defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for future debt service payments on the old bonds beginning in 2010 and ending in 2029. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At September 30, 2008 \$1,230,000 of bonds outstanding are considered defeased.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

F. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2008:

	<u>Balance 10/01/07</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance 09/30/08</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
Primary Government:					
Bonds Payable	\$ 2,325,000	\$ 0	\$ (165,000)	\$ 2,160,000	\$ 110,000
Deferred Amounts on Refunding	<u>(32,235)</u>	<u>0</u>	<u>1,954</u>	<u>(30,281)</u>	<u>0</u>
Total Bonds Payable, Net	2,292,765	0	(163,046)	2,129,719	110,000
Compensated Absences	<u>31,175</u>	<u>0</u>	<u>(14,904)*</u>	<u>16,271</u>	<u>0</u>
Total Primary Government	<u>\$ 2,323,940</u>	<u>\$ 0</u>	<u>\$ (177,950)</u>	<u>\$ 2,145,990</u>	<u>\$ 110,000</u>
Component Units:					
Bonds Payable	<u>\$ 0</u>	<u>\$ 2,300,000</u>	<u>\$ 0</u>	<u>\$ 2,300,000</u>	<u>\$ 45,000</u>
	<u>Balance 10/01/07</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance 09/30/08</u>	<u>Due Within One Year</u>
<u>Business-Type Activities</u>					
Primary Government:					
Bonds Payable	\$ 1,465,000	\$ 0	\$ (85,000)	\$ 1,380,000	\$ 115,000
Deferred Amounts on Refunding	<u>(20,306)</u>	<u>0</u>	<u>944</u>	<u>(19,362)</u>	<u>0</u>
Total Bonds Payable, Net	1,444,694	0	(84,056)	1,360,638	115,000
Contracts Payable	792,789	0	(203,658)	589,131	248,321
Compensated Absences	<u>13,150</u>	<u>0</u>	<u>(6,321)*</u>	<u>6,829</u>	<u>0</u>
Total Primary Government	<u>\$ 2,250,633</u>	<u>\$ 0</u>	<u>\$ (294,035)</u>	<u>\$ 1,956,598</u>	<u>\$ 363,321</u>
Component Units:					
Bonds Payable	\$ 355,000	\$ 0	\$ (115,000)	\$ 240,000	\$ 120,000
Compensated Absences	<u>18,750</u>	<u>766</u>	<u>0</u>	<u>19,516</u>	<u>6,316</u>
Total Component Units	<u>\$ 373,750</u>	<u>\$ 766</u>	<u>\$ (115,000)</u>	<u>\$ 259,516</u>	<u>\$ 126,316</u>

*Represents net of additions and retirements for the year.

The interest expenditures on long-term obligations for the year were \$183,193.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

The annual aggregate maturities for all debt outstanding as of September 30, 2008 are as follows:

Primary Government

Bonds Payable	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2009	\$ 110,000	\$ 86,897	\$ 115,000	\$ 57,956	\$ 369,853
2010	115,000	81,739	40,000	53,913	290,652
2011	120,000	76,631	45,000	52,313	293,944
2012	125,000	71,681	45,000	50,681	292,362
2013	135,000	66,531	45,000	48,881	295,412
2014 - 2018	770,000	244,267	270,000	208,530	1,492,797
2019 - 2023	640,000	97,096	330,000	145,043	1,212,139
2024 - 2028	145,000	2,991	400,000	71,307	619,298
2029	<u>0</u>	<u>0</u>	<u>90,000</u>	<u>3,825</u>	<u>93,825</u>
Total	<u>\$ 2,160,000</u>	<u>\$ 727,833</u>	<u>\$ 1,380,000</u>	<u>\$ 692,449</u>	<u>\$ 4,960,282</u>

Contracts Payable	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2009	\$ 0	\$ 0	\$ 248,321	\$ 29,283	\$ 277,604
2010	0	0	245,554	15,125	260,679
2011	<u>0</u>	<u>0</u>	<u>95,256</u>	<u>5,382</u>	<u>100,638</u>
Total	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 589,131</u>	<u>\$ 49,790</u>	<u>\$ 638,921</u>

Component Units

Bonds Payable	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2009	\$ 45,000	\$ 90,227	\$ 120,000	\$ 7,440	\$ 262,667
2010	45,000	103,750	120,000	4,769	273,519
2011	50,000	102,017	0	0	152,017
2012	50,000	100,092	0	0	150,092
2013	55,000	98,155	0	0	153,155
2014 - 2018	315,000	456,752	0	0	771,752
2019 - 2023	425,000	381,824	0	0	806,824
2024 - 2028	575,000	272,476	0	0	847,476
2029 - 2033	<u>740,000</u>	<u>114,750</u>	<u>0</u>	<u>0</u>	<u>854,750</u>
Total	<u>\$ 2,300,000</u>	<u>\$ 1,720,043</u>	<u>\$ 240,000</u>	<u>\$ 12,209</u>	<u>\$ 4,272,252</u>

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 7 - PROPERTY TAXES

Property taxes include amounts levied against all real property and tangible personal property located in the City. Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on August 31 with the final collection date of February 28 before they are added to the County tax rolls. For the current year, the taxable value for properties located within the City was \$82,431,618. The tax rates were 16.1553 mills for operations and 1.75 mills for garbage.

NOTE 8 - OPERATING TRANSFERS

During the year ended September 30, 2008, the following transfers were made:

<u>Description</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
<u>Major Funds</u>		
Major Governmental Funds:		
General Fund	\$ 135,024	\$ 335,431
Major Business-Type Activity Funds:		
City Park Fund	<u>0</u>	<u>165,024</u>
Total Major Funds	<u>135,024</u>	<u>500,455</u>
 Non-major Governmental Funds	 <u>490,505</u>	 <u>125,074</u>
	<u>\$ 625,529</u>	<u>\$ 625,529</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 9 - RETIREMENT PLAN

The City has adopted a defined contribution pension plan covering substantially all of its general employees. The plan is administered through Hartford Life Insurance Company.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participant's benefits that may be allocated to such participant's account.

Contributions made by an employee vest immediately and contributions made by the City vest after 5 years of full-time employment. An employee who leaves the employment of the City is entitled to his or her contributions and the City's contributions if vesting requirements are satisfied. The City is required to contribute an amount equal to 8% of the employee's gross earnings.

During the year, the City's required and actual contributions amounted to \$57,864.

No pension provision changes occurred during the year that affected the required contributions to be made by the City or its employees.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 10 - DEFERRED COMPENSATION PLAN

The City offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC) Section 457. The assets of the plans are held in trust, in a custodial account as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof, for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the City for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the City's financial statements.

NOTE 11 - UNEMPLOYMENT COMPENSATION

The City is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the City must reimburse the Employment Agency for all benefits charged against the City. Accrued unemployment compensation was \$0 as of September 30, 2008.

NOTE 12 - RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits claims, general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 13 - RESTRICTED ASSETS AND RESERVES

The City is required, under Ordinance No. 203 on the 1967 revenue bond issue, to maintain certain restricted assets in the Sewer Fund. The ordinance provides that a "Bond and Interest Redemption Fund" be established with quarterly deposits for payment of principal and interest in an amount equal to at least the sum of one-half the amount due on the next ensuing interest due date and one-fourth of the principal next maturing.

The ordinance also requires that a "Bond Reserve Account" be established within the "Bond and Interest Redemption Fund." Quarterly deposits have previously been required under Ordinance No. 158 and the sum of \$43,000 has accumulated in both the Water and Sewer Funds. The monies so used are required to be used solely for payment of principal and interest on bonds that would otherwise be in default. Any monies so used are required to be replaced with the first available revenues not needed for operation and maintenance or for current principal and interest requirements.

The City is also required under Ordinance No. 203 to have established within the Sewer Fund a "Replacement Fund" for the purpose of making major repairs and replacements to the system. Any monies so used are required to be replaced with the first available revenues not needed to fulfill the above requirements. The balance of said account need not exceed the sum of \$15,000.

The City is required, under the 1999 Water Supply System Revenue Bonds and the 2007 Water Supply System Revenue Refunding Bonds, to maintain certain restricted assets in the Water Fund. The Bonds provide that a Bond Reserve Account be established "at the lesser of" (1) the maximum annual debt service due in the current or any future year (2) 125% of the average annual debt service or (3) 10% of the principal amount of the Bonds. The City did meet these requirements for the year ended September 30, 2008. The 2007 Water Supply System Revenue Refunding Bonds also require certain assets be deposited into the Bond and Interest Redemption Depository account. The City did not meet these requirements for the year ended September 30, 2008.

CITY OF EAST TAWAS
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 14 - PRIOR PERIOD ADJUSTMENT

In the prior year, the August 2007 State Revenue Sharing payment was not included in revenue in the General Fund, as is required by the State Numbered Letter 1997-1. A prior period adjustment has been recorded to include the revenue in the beginning fund balance for the total August payment of \$56,187. In the prior year, the August 2007 State Act 51 revenue for the Major and Local Streets was not included in revenue. A prior period adjustment has been recorded to include the revenue for the Major and Local Street Funds in the beginning fund balance for each fund, the total August payment was \$28,560 and \$12,306, respectively. In the prior year, an Investment in Iosco County Wastewater Treatment Plant was shown on the financial statements in the Sewer Fund, it was determined that this should be shown as a depreciated fixed asset in the current year. Therefore, a prior period adjustment has been made totaling \$807,514. Also in the prior year, the TIFA was shown as part of the governmental funds rather than as a separate component unit. Therefore, its fund balance amount totaling \$514,470 and its net capital assets totaling \$305,310 have been restated out of governmental activities net assets to the component unit net assets.

	<u>Original 2007</u>	<u>Restatement</u>	<u>Restated 2007</u>
Governmental Activities Net Assets	\$ 6,931,660	\$ (722,727)	\$ 6,208,933
Business-Type Activities Net Assets	10,231,543	(807,514)	9,424,029
East Tawas TIFA - Component Unit Net Assets	<u>0</u>	<u>819,780</u>	<u>819,780</u>
	<u>\$ 17,163,203</u>	<u>\$ (710,461)</u>	<u>\$ 16,452,742</u>

NOTE 15 - RELATED PARTY TRANSACTIONS

The City of East Tawas has entered into contracts with Bolen Asphalt Paving, Inc. and Bolen Trucking Co., Inc. for bituminous paving and snow removal for fiscal years 2007 - 2009. Bolen Asphalt Paving, Inc. and Bolen Trucking Co., Inc. are owned and operated by relatives of a member of the government's governing council. During the current year, Bolen Asphalt Paving, Inc. was paid \$84,412 for bituminous paving and Bolen Trucking Co., Inc. was paid \$18,430 for snow removal.

NOTE 16 - COMMITMENTS

The City has contractual commitments in the amount of \$247,944 outstanding at September 30, 2008.

Construction contracts

As of September 30, 2008, the City had the following construction contracts in progress:

<u>Project</u>	<u>Total Contract</u>	<u>Remaining Construction Commitment at September 30, 2008</u>	<u>Contract Payable at September 30, 2008</u>
Westover Street	\$ <u>247,944</u>	\$ <u>247,944</u>	\$ <u>0</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 GENERAL FUND
For the Year Ended September 30, 2008

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Property Taxes	\$ 1,130,500	\$ 1,150,350	\$ 1,142,239	\$ (8,111)
Federal Grants and Revenue	0	35,261	35,261	0
State Grants and Revenue	290,000	294,350	292,356	(1,994)
Contributions from Local Units	0	13,950	13,950	0
Licenses and Permits	2,300	3,200	3,576	376
Charges for Services	101,900	107,325	107,479	154
Interest and Rentals	188,442	234,270	250,286	16,016
Other Revenue	44,000	64,850	65,556	706
Total Revenue	<u>1,757,142</u>	<u>1,903,556</u>	<u>1,910,703</u>	<u>7,147</u>
<u>Expenditures</u>				
Current:				
General Government:				
Legislative	55,350	61,800	57,038	4,762
Chief Executive	66,550	77,675	73,314	4,361
Financial and Tax Administration	166,075	160,300	154,555	5,745
Other General Government	275,523	279,874	245,820	34,054
Public Safety	400,125	398,100	391,354	6,746
Public Works	488,350	532,100	462,702	69,398
Community and Economic Development	73,000	80,985	74,069	6,916
Recreation and Cultural	62,275	47,900	44,466	3,434
Capital Outlay	86,000	64,414	53,741	10,673
Total Expenditures	<u>1,673,248</u>	<u>1,703,148</u>	<u>1,557,059</u>	<u>146,089</u>
Excess of Revenue Over (Under) Expenditures	<u>83,894</u>	<u>200,408</u>	<u>353,644</u>	<u>153,236</u>
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In	137,448	135,023	135,024	1
Operating Transfers Out	(254,431)	(335,431)	(335,431)	0
Total Other Financing Sources (Uses)	<u>(116,983)</u>	<u>(200,408)</u>	<u>(200,407)</u>	<u>1</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	(33,089)	0	153,237	153,237
Fund Balances - Beginning of Year (Restated)	<u>1,332,534</u>	<u>1,332,534</u>	<u>1,332,534</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 1,299,445</u>	<u>\$ 1,332,534</u>	<u>\$ 1,485,771</u>	<u>\$ 153,237</u>

CITY OF EAST TAWAS
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FEDERAL PROJECT FUND - SPECIAL REVENUE FUND
For the Year Ended September 30, 2008

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Charges for Services	\$ 0	\$ 0	\$ 100	\$ 100
Interest and Rentals	55,617	60,641	60,613	(28)
Other Revenue	<u>90,666</u>	<u>203,482</u>	<u>178,478</u>	<u>(25,004)</u>
Total Revenue	146,283	264,123	239,191	(24,932)
<u>Expenditures</u>				
Current:				
Community and Economic Development	<u>146,283</u>	<u>300</u>	<u>119</u>	<u>181</u>
Excess of Revenue Over Expenditures	0	263,823	239,072	(24,751)
Fund Balances - Beginning of Year	<u>599,306</u>	<u>599,306</u>	<u>599,306</u>	<u>0</u>
Fund Balances - End of Year	<u><u>\$ 599,306</u></u>	<u><u>\$ 863,129</u></u>	<u><u>\$ 838,378</u></u>	<u><u>\$ (24,751)</u></u>

OTHER INFORMATION

CITY OF EAST TAWAS
Iosco County, Michigan

COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
September 30, 2008

	Special Revenue Funds					Debt Retirement Funds		
	Major Streets	Local Streets	Cemetery Fund	Community Center	Intragovernmental Service Fund	Major Street Construction Bond	Building Authority Fund	Iosco County Sewer System #2
<u>ASSETS</u>								
Cash and Cash Equivalents	\$ 167,564	\$ 46,444	\$ 3,573	\$ 16,600	\$ 44,956	\$ 1,650	\$ 241	\$ 0
Investments	0	0	0	0	0	0	0	0
Receivables:								
Interest	0	0	0	122	0	0	0	0
Due from State	30,995	12,110	0	0	0	0	0	0
Due from Other Funds	0	0	2,146	0	0	0	0	0
	<u>0</u>	<u>0</u>	<u>2,146</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets	<u>\$ 198,559</u>	<u>\$ 58,554</u>	<u>\$ 5,719</u>	<u>\$ 16,722</u>	<u>\$ 44,956</u>	<u>\$ 1,650</u>	<u>\$ 241</u>	<u>\$ 0</u>
<u>LIABILITIES AND FUND EQUITY</u>								
<u>Liabilities</u>								
Accounts Payable	\$ 14,047	\$ 740	\$ 15	\$ 3,616	\$ 0	\$ 0	\$ 0	\$ 0
Due to Other Funds	6,201	1,472	0	0	0	0	0	0
Accrued Liabilities	443	198	0	324	0	0	0	0
Total Liabilities	<u>20,691</u>	<u>2,410</u>	<u>15</u>	<u>3,940</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>Fund Equity</u>								
Fund Balances:								
Reserved For:								
Debt Service	0	0	0	0	0	1,650	241	0
Perpetual Care	0	0	0	0	0	0	0	0
Unreserved:								
Undesignated, Reported In:								
Special Revenue Funds	177,868	56,144	5,704	12,782	44,956	0	0	0
Total Fund Equity	<u>177,868</u>	<u>56,144</u>	<u>5,704</u>	<u>12,782</u>	<u>44,956</u>	<u>1,650</u>	<u>241</u>	<u>0</u>
Total Liabilities and Fund Equity	<u>\$ 198,559</u>	<u>\$ 58,554</u>	<u>\$ 5,719</u>	<u>\$ 16,722</u>	<u>\$ 44,956</u>	<u>\$ 1,650</u>	<u>\$ 241</u>	<u>\$ 0</u>

CITY OF EAST TAWAS
Iosco County, Michigan

COMBINING BALANCE SHEET
 OTHER GOVERNMENTAL FUNDS
September 30, 2008

	Debt Retirement Funds	Permanent Fund	
	2007 Building Authority Refunding Bond Fund	Cemetery Perpetual Care	Total Other Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 0	\$ 93	\$ 281,121
Investments	0	81,406	81,406
Receivables:			
Interest	0	0	122
Due from State	0	0	43,105
Due from Other Funds	0	0	2,146
	<u>0</u>	<u>0</u>	<u>2,146</u>
Total Assets	<u>\$ 0</u>	<u>\$ 81,499</u>	<u>\$ 407,900</u>
<u>LIABILITIES AND FUND EQUITY</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 0	\$ 0	\$ 18,418
Due to Other Funds	0	2,146	9,819
Accrued Liabilities	0	0	965
Total Liabilities	<u>0</u>	<u>2,146</u>	<u>29,202</u>
<u>Fund Equity</u>			
Fund Balances:			
Reserved For:			
Debt Service	0	0	1,891
Perpetual Care	0	79,353	79,353
Unreserved:			
Undesignated, Reported In:			
Special Revenue Funds	0	0	297,454
Total Fund Equity	<u>0</u>	<u>79,353</u>	<u>378,698</u>
Total Liabilities and Fund Equity	<u>\$ 0</u>	<u>\$ 81,499</u>	<u>\$ 407,900</u>

CITY OF EAST TAWAS
Iosco County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
 OTHER GOVERNMENTAL FUNDS
For the Year Ended September 30, 2008

	Special Revenue Funds					Debt Retirement Funds		
	Major Streets	Local Streets	Cemetery Fund	Community Center	Intragovernmental Service Fund	Major Street Construction Bond	Building Authority Fund	Iosco County Sewer System #2
Revenue								
State Grants and Revenue	\$ 208,078	\$ 74,400	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Contributions from Local Units	125,000	0	0	0	0	0	0	71,698
Charges for Services	0	0	8,605	17,629	0	0	0	0
Interest and Rentals	2,894	333	152	23,648	7,520	51	134,754	0
Other Revenue	0	0	0	593	0	0	0	0
Total Revenue	<u>335,972</u>	<u>74,733</u>	<u>8,757</u>	<u>41,870</u>	<u>7,520</u>	<u>51</u>	<u>134,754</u>	<u>71,698</u>
Expenditures								
Current:								
General Government:								
Other General Government	0	0	10,232	0	0	0	0	0
Public Works	217,952	117,049	0	0	0	0	0	0
Recreation and Cultural	0	0	0	115,420	0	0	0	0
Capital Outlay	17,671	0	0	0	474,850	0	0	0
Debt Service:								
Principal	0	0	0	0	0	35,000	60,000	70,000
Interest and Fiscal Charges	0	0	0	0	0	20,213	8,310	1,698
Total Expenditures	<u>235,623</u>	<u>117,049</u>	<u>10,232</u>	<u>115,420</u>	<u>474,850</u>	<u>55,213</u>	<u>68,310</u>	<u>71,698</u>
Excess of Revenue Over (Under) Expenditures	<u>100,349</u>	<u>(42,316)</u>	<u>(1,475)</u>	<u>(73,550)</u>	<u>(467,330)</u>	<u>(55,162)</u>	<u>66,444</u>	<u>0</u>
Other Financing Sources (Uses)								
Sale of Capital Assets	0	0	0	0	74,000	0	0	0
Operating Transfers In	82,431	81,000	3,147	70,000	132,000	55,213	0	0
Operating Transfers Out	<u>(55,213)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(66,714)</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>27,218</u>	<u>81,000</u>	<u>3,147</u>	<u>70,000</u>	<u>206,000</u>	<u>55,213</u>	<u>(66,714)</u>	<u>0</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	127,567	38,684	1,672	(3,550)	(261,330)	51	(270)	0
Fund Balances - Beginning of Year (Restated)	<u>50,301</u>	<u>17,460</u>	<u>4,032</u>	<u>16,332</u>	<u>306,286</u>	<u>1,599</u>	<u>511</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 177,868</u>	<u>\$ 56,144</u>	<u>\$ 5,704</u>	<u>\$ 12,782</u>	<u>\$ 44,956</u>	<u>\$ 1,650</u>	<u>\$ 241</u>	<u>\$ 0</u>

CITY OF EAST TAWAS
Iosco County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
 OTHER GOVERNMENTAL FUNDS
For the Year Ended September 30, 2008

	Debt Retirement Funds	Permanent Fund	
	2007 Building Authority Refunding Bond Fund	Cemetery Perpetual Care	Total Other Governmental Funds
<u>Revenue</u>			
State Grants and Revenue	\$ 0	\$ 0	\$ 282,478
Contributions from Local Units	0	0	196,698
Charges for Services	0	0	26,234
Interest and Rentals	0	2,995	172,347
Other Revenue	0	2,440	3,033
Total Revenue	<u>0</u>	<u>5,435</u>	<u>680,790</u>
<u>Expenditures</u>			
Current:			
General Government:			
Other General Government	0	0	10,232
Public Works	0	0	335,001
Recreation and Cultural	0	0	115,420
Capital Outlay	0	0	492,521
Debt Service:			
Principal	0	0	165,000
Interest and Fiscal Charges	66,714	0	96,935
Total Expenditures	<u>66,714</u>	<u>0</u>	<u>1,215,109</u>
Excess of Revenue Over (Under) Expenditures	<u>(66,714)</u>	<u>5,435</u>	<u>(534,319)</u>
<u>Other Financing Sources (Uses)</u>			
Sale of Capital Assets	0	0	74,000
Operating Transfers In	66,714	0	490,505
Operating Transfers Out	0	(3,147)	(125,074)
Total Other Financing Sources (Uses)	<u>66,714</u>	<u>(3,147)</u>	<u>439,431</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	0	2,288	(94,888)
Fund Balances - Beginning of Year (Restated)	<u>0</u>	<u>77,065</u>	<u>473,586</u>
Fund Balances - End of Year	<u>\$ 0</u>	<u>\$ 79,353</u>	<u>\$ 378,698</u>

CITY OF EAST TAWAS
Iosco County, Michigan

COMBINING BALANCE SHEET
EAST TAWAS TIFA - COMPONENT UNIT
GOVERNMENTAL FUNDS
September 30, 2008

	Special Revenue Fund	Capital Project Fund	
	TIFA Fund	Downtown Development Construction Fund	Total Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 97,488	\$ 1,441,180	\$ 1,538,668
Investments	206,451	0	206,451
Receivables:			
Property Taxes	<u>158,981</u>	<u>0</u>	<u>158,981</u>
Total Assets	<u>\$ 462,920</u>	<u>\$ 1,441,180</u>	<u>\$ 1,904,100</u>
<u>LIABILITIES AND FUND EQUITY</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 0	\$ 513,253	\$ 513,253
Accrued Liabilities	285	0	285
Deferred Revenue	<u>158,981</u>	<u>0</u>	<u>158,981</u>
Total Liabilities	<u>159,266</u>	<u>513,253</u>	<u>672,519</u>
<u>Fund Equity</u>			
Fund Balances:			
Reserved For:			
Capital Projects	0	927,927	927,927
Unreserved:			
Undesignated, Reported In:			
Special Revenue Fund	<u>303,654</u>	<u>0</u>	<u>303,654</u>
Total Fund Equity	<u>303,654</u>	<u>927,927</u>	<u>1,231,581</u>
Total Liabilities and Fund Equity	<u>\$ 462,920</u>	<u>\$ 1,441,180</u>	<u>\$ 1,904,100</u>

CITY OF EAST TAWAS
Iosco County, Michigan

EAST TAWAS TIFA - COMPONENT UNIT -
RECONCILIATION OF THE GOVERNMENTAL FUND
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
September 30, 2008

Total Governmental Fund Balances \$ 1,231,581

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:

Capital Asset Cost	\$ 1,793,612	
Accumulated Depreciation	<u>(31,130)</u>	1,762,482

Accrued Interest on Long-Term Liabilities (26,365)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:

Bonds Payable (Net of Unamortized Discount)	<u>(2,214,362)</u>
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Total Net Assets - Governmental Activities \$ 753,336

CITY OF EAST TAWAS
Iosco County, Michigan

COMBINING STATEMENT OF
REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES -
EAST TAWAS TIFA - COMPONENT UNIT - GOVERNMENTAL FUNDS
September 30, 2008

	Special Revenue Fund	Capital Project Fund	
		Downtown Development Construction Fund	Total Governmental Funds
	TIFA Fund		
<u>Revenue</u>			
Property Taxes	\$ 254,245	\$ 0	\$ 254,245
Interest and Rentals	19,782	16,489	36,271
Other Revenue	13,216	0	13,216
Total Revenue	<u>287,243</u>	<u>16,489</u>	<u>303,732</u>
<u>Expenditures</u>			
Current:			
General Government:			
Financial and Tax Administration	34,421	0	34,421
Public Works	207,198	8,110	215,308
Community and Economic Development	51,904	0	51,904
Capital Outlay	116,132	1,382,353	1,498,485
Debt Service:			
Bond Issuance Costs	0	57,760	57,760
Total Expenditures	<u>409,655</u>	<u>1,448,223</u>	<u>1,857,878</u>
Excess of Revenue Over (Under) Expenditures	<u>(122,412)</u>	<u>(1,431,734)</u>	<u>(1,554,146)</u>
<u>Other Financing Sources (Uses)</u>			
Bond Proceeds	0	2,300,000	2,300,000
Operating Transfers In	0	88,404	88,404
Operating Transfers Out	(88,404)	0	(88,404)
Discount on Bonds Issuance	0	(28,743)	(28,743)
Total Other Financing Sources (Uses)	<u>(88,404)</u>	<u>2,359,661</u>	<u>2,271,257</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	(210,816)	927,927	717,111
Fund Balances - Beginning of Year	<u>514,470</u>	<u>0</u>	<u>514,470</u>
Fund Balances - End of Year	<u>\$ 303,654</u>	<u>\$ 927,927</u>	<u>\$ 1,231,581</u>

CITY OF EAST TAWAS
Iosco County, Michigan

EAST TAWAS TIFA - COMPONENT UNIT -
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2008

Total Net Change in Fund Balances - Governmental Funds \$ 717,111

Amounts reported for governmental activities in the statement of
activities are different because:

Governmental funds report capital outlays as expenditures. However,
in the statement of activities, the cost of those assets is allocated over
their estimated useful lives as depreciation expense.

Capital Outlay	\$ 1,475,796	
Current Year Depreciation Expense	<u>(18,624)</u>	
Net difference		1,457,172

Governmental funds report the effect of issuance costs and premiums
when debt is first issued, whereas these amounts are deferred and
amortized in the statement of activities. The net effect of these
differences in the treatment of long-term liabilities is as follows:

Bond Proceeds	(2,300,000)	
Bond Issuance Costs	57,760	
Bond Issuance Discount	28,743	
Amortization of Bond Costs	<u>(865)</u>	
		(2,214,362)

Some expenses reported in the statement of activities do not require
the use of current financial resources and, therefore, are not reported
as expenditures in the governmental funds:

Net Change in Accrued Interest		<u>(26,365)</u>
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Change in Net Assets of Governmental Activities		<u>\$ (66,444)</u>
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Stephenson, Gracik & Co., P.C.
Certified Public Accountants & Consultants

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James J. Gracik, CPA
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Kyle E. Troyer, CPA

Herman A. Bertuleit

January 22, 2009

Management and the City Council
City of East Tawas
East Tawas, Michigan

We have conducted the audit of the financial statements of the governmental activities, business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City of East Tawas as of and for the year ended September 30, 2008 and have issued our report dated January 22, 2009. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditor's Communication of Significant Matters with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel of the City during the audit and met with management on January 22, 2009. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the City Council, others within the City and the Michigan Department of Treasury and are not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

Stephenson, Gracik & Co., P.C.

Stephenson, Gracik & Company, P.C.
Certified Public Accountants

Stephenson, Gravit & Co., P.C.

Appendix 1 Communication to Those Charged with Governance

Responsibilities Under Generally Accepted Auditing Standards

As stated in our engagement letter dated November 12, 2008, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit as outlined in our engagement letter related to planning matters dated November 12, 2008.

Significant Audit Findings

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the City during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.
- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

Difficulties Encountered During the Audit

We encountered no difficulties during the audit.

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management. A summary of unadjusted audit differences was provided to management on January 22, 2009.

Disagreements with Management

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditor's report. We had no disagreements with management during the audit.

Stephenson, Gracik & Co., P.C.

Appendix 1 Communication to Those Charged with Governance

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

Significant Issues Discussed or Subject to Correspondence with Management

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

**Appendix II
Management Comments**

In planning and performing our audit of the financial statements of City of East Tawas as of and for the year ended September 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered City of East Tawas' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of East Tawas' internal control. Accordingly, we do not express an opinion on the effectiveness of the City of East Tawas' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We identified the following deficiency in internal control that we consider to be a significant deficiency.

FINANCIAL STATEMENT PREPARATION CONTROLS

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the City of East Tawas' financial statements. However, if at any point in the audit we as auditors are part of the City's control system for producing reliable financial statements, auditing standards indicate that the City has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

View of Responsible Officials:

The City of East Tawas has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the City to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

The City of East Tawas' response to the finding in our audit is described above. We did not audit the City's response and, accordingly, we express no opinion on it.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Stephenson, Gracik & Co., P.C.

Appendix II Management Comments

We have also noted various items we feel could improve your internal controls or operating efficiencies. These items are not considered significant deficiencies or material weaknesses but are presented for your consideration.

UTILITY BILLING ADJUSTMENTS

During our audit procedures related to the utility billing process, City employees indicated that a spreadsheet is prepared comparing the total usage billed to customers to the total water usage billed to the City from Earth Tech. As a control over the billing system, this spreadsheet is reviewed by the City Manager. However, there are no initials or signature signifying this review.

We recommend that the City Manager initial these reports after his review in order to strengthen the City's existing control.

We also noticed that the Deputy Clerk/Deputy Treasurer processes the utility bills, is able to collect payments for the utility bills, and processes billing adjustments. This creates a lack of segregation of duties in this transaction cycle.

We recommend that either the City Clerk/Treasurer or City Manager obtain a report directly from the billing system each month detailing billing adjustments and review the report for any unusual activity. This review should be signified by either initials or a signature.

COMPLIANCE WITH BOND ORDINANCE

During our audit procedures related to debt, we observed that the City did not have the required balance in the Bond Interest and Redemption Depository Account at September 30, 2008 for the 2007 Water Refunding Bond per the bond ordinance.

We recommend the City comply with the bond ordinance and set aside the required balances.

STATUS OF PRIOR YEAR COMMENTS:

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Management Decision To Not Implement</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Financial Statement Preparation Controls				X